

# Arohan Financial Services Limited

## Nomination & Remuneration Policy

### Version 2.0



**Prepared & Revised by:** Compliance Department

**Reviewed by :** Compliance Department and Executive Committee

**Approved by :** Board of Directors

**Reviewed by Board:** 27<sup>th</sup> April, 2018

**Second time review by Board:** 14<sup>th</sup> August, 2019

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## **Introduction:**

The Company considers human resources as its invaluable asset which should be nurtured and groomed for organizational development. This policy for nomination and remuneration of Directors, Key Managerial Personnel and Executive Committee members has been formulated by the Nomination & Remuneration Committee (“Committee”), as required under section 178 of the Companies Act, 2013. This policy lays down criteria and processes to ensure equitable remuneration to all Directors, Key Managerial Personnel (KMP) and other employees of the Company and to harmonize the aspirations of the human resources in line with the goals of the Company.

## **Definitions:**

“**Act**” shall mean the Companies Act, 2013 and the Rules framed thereunder, including any modifications, amendments, clarifications, circulars or re-enactment thereof.

“**The Company**” shall mean **Arohan Financial Services Limited**.

“**The Director**” or “**the Board**” in relation to the Company shall mean and deemed to include the collective body of the Board of Directors of the Company including the Chairman of the Company.

“**The Independent Director**” shall mean an Independent Director as defined under section 2 (47) read with section 149 (5) of the Act.

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“**The Policy**” or “**This Policy**” shall mean the Nomination and Remuneration Policy.

“**The Committee**” or “**This Committee**” shall mean the Nomination and Remuneration Committee of the Board of Directors formed under the provisions of Section 178 of Companies Act, 2013.

### **Objective of the Policy:**

The policy is framed with the objective(s):

- i. To lay down criteria and terms & conditions with regard to identifying persons qualified to become Directors (Executive and Non-Executive) and Executive Committee members and Key Managerial positions;
- ii. To determine remuneration based on the Company’s size and financial position, trends and practices on remuneration prevailing in peer companies and industry as a whole;
- iii. To carry out evaluation of the performance of Directors;
- iv. To provide them rewards linked directly to their effort, performance, dedication and achievement relating to the Company’s operations;
- v. To retain, motivate and promote talent and to ensure long term sustainability of talented managerial persons commensurate with the requirements of the Company;

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## **Effective Date**

This policy shall be effective from 27<sup>th</sup> April 2018.

## **Constitution of the Nomination and Remuneration Committee**

The Board of Directors, have constituted the Company’s Nomination and Remuneration Committee (NRC) in compliance with the requirements of Section 178 of the Companies Act, 2013. The NRC Committee was also formed in compliance with the Regulation 68 of the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

## **Applicability**

This Policy is applicable to:

- Directors viz. Executive, Non-executive and Independent
- Key Managerial Personnel
- Executive Committee members

“Executive Committee members” (EXCOM Members) for this purpose shall mean employees of the Company who are members of its core management team directly reporting to the Managing Director. It would comprise all members of management one level below the executive director(s), including the functional / vertical heads.

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## General

The Policy is divided in four parts;

- PART – A: covers the matters to be dealt with and recommended by the Committee to the Board
- PART – B: covers the nomination, appointment and removal of Directors, KMP and EXCOM Members; and
- PART – C: covers remuneration, perquisites etc. for Directors, KMP and EXCOM Members.
- PART – D: Fit and Proper Criteria for Directors.

The key features of this Company’s policy shall be included in the Board’s Report.

### PART – A

#### **MATTERS TO BE DEALT WITH AND RECOMMENDED TO THE BOARD BY THE NOMINATION AND REMUNERATION COMMITTEE**

The Committee shall:

- Formulate the criteria for determining qualifications, positive attributes and independence of a director;
- Identify persons who are qualified to become Directors, Key Managerial and ECOM Members in accordance with criteria laid down in this policy;

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- Recommend to the Board, appointment and removal of Director, KMP and EXCOM Members;
- Establish and reviewing Board KMP and EXCOM member's Succession Plan in order to ensure and maintain an appropriate balance of skills, experience and expertise on the Board and Senior Management;

Apart from the above, as and when directed by the Board, appointment to any other senior level positions will also be dealt with by the Committee.

## **PART – B**

### **POLICY FOR APPOINTMENT AND REMOVAL OF DIRECTORS, KMP AND SENIOR MANAGEMENT**

Appointment criteria and qualifications:

- i. The Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as director , KMP or EXCOM Member position and recommend to the Board his/her appointment.
- ii. A person should possess adequate qualification, expertise and experience, commensurate with the requirements of the position he/she is considered for appointment. The Committee has discretion to decide the adequacy of qualification, expertise of a person for the concerned position.

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iii. As for qualifications and other attributes for being appointed as Director, both Executive and Non Executive, the incumbent should:

- a) At least be a Graduate ;
- b) Financially literate so as to read and understand the financial statements ;
- c) Have held senior position in any organization of repute
- d) Where he is proposed to be appointed as a Non Executive Directors, satisfy the criteria of independence as provided in the Companies Act, 2013 and possess other attributes as specified in the said Act.

The candidates for appointment as Executive and Non Executive Directors shall generally be identified through the Company's internally established selection process. The Company may, nevertheless, take the assistance of external consultants to identify candidates, where necessary.

For the benefit of the Company, the Board may appoint or continue the appointment of any person who has attained the age of seventy years as Managing Director or Wholetime Director with the approval of shareholders by a special resolution in general meeting.

## **Terms of Appointment**

### 1. Managing Director/Whole-time Director:

The Board may appoint or re-appoint any person as its Managing

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Director or Executive Director for a term as may be determined by the Board but not exceeding five years at a time, as prescribed by law. No re-appointment shall be made earlier than one year before the expiry of term.

## 2. Independent Director :

An Independent Director shall hold office for a term up to five consecutive years on the Board of the Company and will be eligible for re-appointment on passing of a special resolution by the Company and disclosure of such appointment in the Board's report. Provisions of the Companies Act, 2013 relating to tenure, directorships limits, restriction on appointments, etc. shall apply.

## 3. Evaluation:

The Committee shall carry out evaluation of performance of every Director on yearly basis. This will be in addition to the evaluation of the Directors to be done by the Independent Directors as prescribed by law.

## 4. Removal :

The Committee may recommend, to the Board with reasons recorded in writing, removal of a Director, KMP or EXCOM Members, due to any disqualification mentioned in the Companies Act, 2013, rules

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made thereunder or under any other applicable Acts, Rules and Regulations, if any.

5. Retirement:

The Director, KMP and EXCOM Members shall retire as per the applicable provisions of the Companies Act, 2013 and the prevailing policy of the Company. The Board will have the discretion to retain the Director, KMP, EXCOM Members in the same position / remuneration or otherwise even after attaining the retirement age, for the benefit of the Company, subject to the provisions of the Companies Act, 2013 and the Memorandum and Articles of Association of the Company.

## **PART - C**

### **POLICY RELATING TO THE REMUNERATION FOR THE MANAGING / WHOLE-TIME DIRECTORS, KMPs AND SENIOR MANAGEMENT PERSONNEL**

#### **General:**

1. The remuneration / compensation / commission etc. to the Managing / Wholetime Directors, KMPs and Senior EXCOM Members will be determined by the Committee and recommended to the Board for approval.
2. The remuneration and commission to be paid to the Managing / Wholetime Directors shall be in accordance with the percentage and conditions laid down in the Articles of Association of the Company and as per the provisions of the Companies Act, 2013, and the rules made thereunder and shall be subject to the

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approval of the shareholders of the Company and Central Government, wherever required.

3. Revision to the existing remuneration / compensation structure may be recommended by the Committee of the Board which should be within the slabs approved by the Shareholders in the case of Managing/ Whole-time Directors.
4. Where any insurance is taken by the company on behalf of its Whole-time Director, Chief Executive Officer, Chief Financial Officer, the Company Secretary and any other employees for indemnifying them against any liability, the premium paid on such insurance shall not be treated as part of the remuneration payable to any such personnel.

**Remuneration to Whole-time / Executive/ Managing Director, KMP and EXCOM Members:**

**1. Fixed Pay :**

The Whole-time Director / KMP and EXCOM Members shall be eligible for a monthly remuneration as may be approved by the Board on the recommendation of the Committee. The breakup of the pay scale and quantum of perquisites including, employer's contribution to P.F, pension scheme, medical expenses etc. shall be decided and approved by the Board on the recommendation of the Committee and approved by the shareholders and Central Government, wherever required.

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a) Remuneration of Managing and Wholetime Directors

Remuneration payable to Managing and Wholetime Directors shall be fixed by the Committee considering the knowledge, experience and other attributes of the incumbent. Such remuneration shall comprise salary, perquisites and commission, within the overall ceiling as may be applicable to the Company under the Provision of Companies Act from time to time, of the net profit of the Company, subject to approval of the shareholders in General Meeting. The Commission payable shall be determined on year-to-year basis depending on the performance of the Company for that year. In case of no profit or inadequate profit the Company will comply with the provisions of Section 196, 197 and Schedule V of the Act.

b) Remuneration payable to KMPs and EXCOM Members

Remuneration of Key Managerial Personnel, namely Chief Financial Officer and Company Secretary and those in Senior Management (senior management meaning all members of the management one level below the Executive Directors, including Functional Heads viz. EXCOM Members), will be determined in a fair manner based on recommendation made by the top Management. As for annual incentive payment to KMPs and those in EXCOM Members shall be placed to the Nomination & Remuneration Committee for approval.

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## **2. Minimum Remuneration:**

If, in any financial year, the Company has no profits or its profits are inadequate, the Company shall pay remuneration to its Whole-time Director in accordance with the provisions of the Companies Act, 2013 and if it is not able to comply with such provisions, then the remuneration paid shall be with the previous approval of the Central Government.

## **3. Provision for excess remuneration:**

If any Whole-time Director draws or receives, directly or indirectly by way of remuneration any such sums in excess of the limits prescribed under the Companies Act, 2013 or without the prior sanction of the Central Government, where required, he / she shall refund such sums to the Company and until such sum is refunded, hold it in trust for the Company. The Company shall not waive recovery of such sum refundable to it unless permitted by the Central Government.

## **Remuneration to Non- Executive / Independent Director:**

### **1. Commission :**

The Commission shall be fixed based on the conditions mentioned in the Articles of Association of the Company and the Companies Act,

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2013 and the rules made thereunder. The prescribed remuneration comprise fee for attending meetings of the Board and Committee and commission within the prescribed limit under the Companies Act, 2013, subject to approval of the shareholders in General Meeting. The Commission payable shall be determined on a year to year basis depending on the profit of the Company for that year.

## **2. Sitting Fees:**

The Independent Director may receive remuneration by way of fees for attending meetings of Board or Committee thereof. The amount of such fees shall be such amount as may be fixed by the Board but not exceeding Rs. 1 lakh (Rupees one lakh) per meeting of the Board or Committee or as may be prescribed by the Central Government from time to time.

## **3. Stock Options :**

An Independent Director shall not be entitled to any stock option of the Company.

## **PART – D**

### **FIT AND PROPER CRITERIA FOR DIRECTORS**

Reserve Bank had issued a Directive in June 2004 to banks on undertaking due diligence on the persons before appointing them on the Boards of banks based on the 'Report of the Consultative Group of directors of Banks / Financial Institutions'. Specific 'fit and proper' criteria to be fulfilled by the directors were also advised.

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Further, in order to streamline and bring in uniformity in the process of due diligence, while appointing directors, the Company shall ensure that the procedures mentioned below are followed and minimum criteria fulfilled by the persons before they are appointed on the Boards:

- i. The Company shall undertake a process of due diligence to determine the suitability of the person for appointment / continuing to hold appointment as a director on the Board, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria. The Company shall obtain necessary information and declaration from the proposed / existing directors for the purpose in the format prescribed by RBI Master Direction from time to time.
- ii. The process of due diligence shall be undertaken by the Company at the time of appointment / renewal of appointment.
- iii. The Boards of the Company shall constitute Nomination Committees to scrutinize the declarations.
- iv. Based on the information provided in the signed declaration, Nomination Committees shall decide on the acceptance or otherwise of the directors, where considered necessary.
- v. The Company shall obtain annually as on 31st March a simple declaration from the directors that the information already

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- provided has not undergone change and where there is any change, requisite details are furnished by them forthwith to the Company Secretary of the Company.
- vi. The Board of the Company must ensure in public interest that the nominated/ elected directors execute the deeds of covenants in the format prescribed by RBI from time to time.
- vii. The above policy has been formulated by the Nomination and Remuneration Committee and adopted by the Board of Directors at its meeting held on April 27, 2018 and reviewed on August 14, 2019.
- viii. This policy shall be reviewed by the Nomination and Remuneration Committee as and when any changes are to be incorporated in the policy due to change in regulations or as may be felt appropriate by the Committee. Any changes or modification to the policy as recommended by the Committee would be placed before the Board of Directors for their approval.

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